

VSTECs Bhd

CEASE COVERAGE

Not Rated

Current Price : RM 0.995
Target Price : RM 1.18

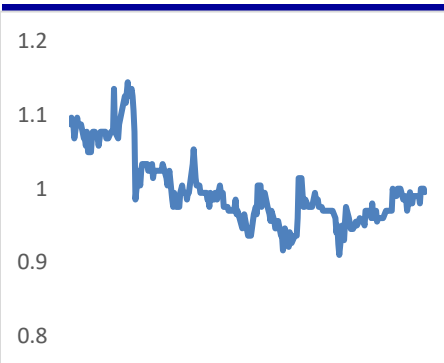
Key Statistics

Bloomberg Ticker	VST MK
Bursa Ticker / Stock Code	VSTECs/5162
Shares Issued (m)	180
Market Capitalisation (RM'm)	180.0
52 Week Hi/Lo Price (RM)	1.22/0.91
Avg Trading Volume (3-mth)	53,981
Est Free Float (m)	43.9
YTD Returns (%)	3.65
Beta	0.76

Major Shareholders (%)

ECS HOLDINGS LTD	42.76
SENGIN SDN BHD	12.05

1-Year Share Price Performance



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Ceasing Coverage

We are ceasing coverage due to lack of retail and institutional interest. We foresee few re-rating catalysts for the company due to the subdued consumer spending and economic downturn in the short term. We think interest in new consumer products such as VR will remain tepid as current technology has yet to make major strides in the area. Other areas such as smartphones have seen replacement cycles lengthen as improvements in functional capabilities with each new model seem to have plateaued. Growth drivers look to be in its Enterprise Systems products as data collection and cybersecurity in businesses become more prevalent.

Earnings Review

For 4QFY18, VSTECs recorded a revenue of RM446.1mil, a drop of 10.3% as compared to last year's corresponding quarter turnover of RM497.2mil. The ICT distribution segment was affected by the reintroduction of the Sales & Services Tax (SST) which saw reduced spending on ICT products. Slightly tighter margins and lower year end provisions write-backs compared to previous year saw PBT fall 27.4% YoY compared to 4QFY17. Revenue grew a pedestrian 2.3%QoQ compared to 3QFY18. This was attributed to higher sales from Enterprise System and ICT services of 14.1% and 25.8% growth QoQ. Revenues from ICT Distribution pulled back -3.1% QoQ.

The group's FY18 revenue were about in line with our expectations as it came in at 97.2% of our forecasts. The Group's FY18 PAT was in line with our earnings forecasts as well standing at 99.3% of our forecast.

Table 1 :Investment Highlights & Earnings Forecasts

FYE Dec (RM'mil)	2016	2017	2018	2019 (F)	2020 (F)
Revenue	1,823.4	1,838.3	1,632.3	1,660.8	1,690.5
Gross profit	92.6	87.5	86.8	83.0	84.5
Profit Before Tax	40.4	35.6	32.8	35.9	36.5
Profit After Tax	30.1	26.3	24.6	26.7	27.2
EPS (sen)	16.7	14.6	13.7	14.8	15.1
PER (x)	5.9	6.8	7.3	6.7	6.6
GP Margin (%)	5.1%	4.8%	5.3%	5.0%	5.0%
PBT Margin %	2.2%	1.9%	2.0%	2.2%	2.2%
PAT Margin %	1.7%	1.4%	1.5%	1.6%	1.6%
DPS (sen)	6.0	5.0	5.0	5.5	5.5
Dividend Yield (%)	6.0%	5.0%	5.0%	5.5%	5.5%
ROE (%)	11.8%	9.6%	8.5%	8.8%	8.4%
ROA (%)	6.0%	5.6%	5.1%	5.4%	5.2%
Net Gearing Ratio	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Inter-Pacific Research

Table 2: Revenue Breakdown by Business Segment

Revenue	4QFY18	4QFY17	YoY Change	3QFY18	QoQ Change
ICT Distribution	296.8	347.2	-14.5%	306.2	-3.1%
Enterprise Systems	137.9	126.1	9.4%	120.9	14.1%
ICT services	11.5	11.2	2.4%	9.1	25.8%
Total	446.1	484.5	-7.9%	436.2	2.3%

Source: Inter-Pacific, Company

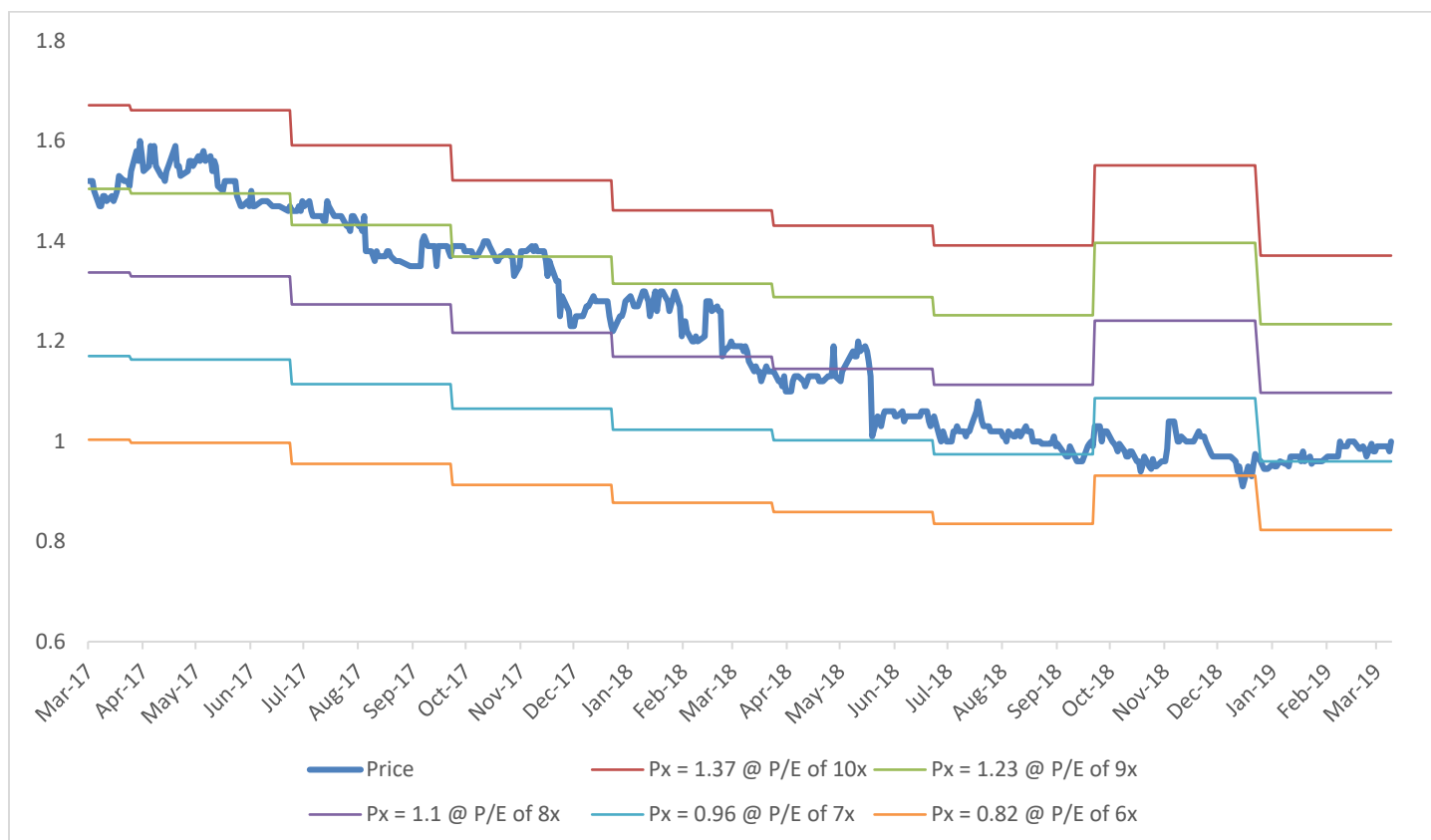
Table 3: Financial Highlights

FYE Dec (RM'mil)	Q4FY18	Q4FY17	YoY Chg	Q3FY18	QoQ Chg	FY18	FY17	YoY Change
Revenue	446.1	497.2	-10.3%	358.2	24.5%	1,632.3	1,838.3	-11.2%
GP	24.5	26.4	-7.1%	18.2	34.9%	86.8	87.5	-0.8%
PBT	11.0	15.2	-27.4%	5.7	93.1%	32.8	35.6	-8.0%
Taxation	(2.7)	(3.6)	-25.1%	(1.4)	89.3%	(8.2)	(9.4)	-12.8%
PAT	8.3	11.6	-28.1%	4.3	94.4%	24.6	26.3	-6.2%
GP Margin	5.5%	5.3%	3.5%	5.1%	8.3%	5.3%	4.8%	11.7%
PBT Margin	2.5%	3.1%	-19.0%	1.6%	55.0%	2.0%	1.9%	3.6%
PAT Margin	1.9%	2.3%	-19.8%	1.2%	56.1%	1.5%	1.4%	5.6%

Source: Inter-Pacific, Company

The Board has recommended a single tier final dividend of 2.5 sen per share for FYE18. Proposed payable date is 19 June 2019. The dividend yield currently stands at 5.1%.

Illustration 1: 2-Yr Price Earnings Band



Source: Bloomberg, Inter-Pacific Research

Declaration of Independence of Opinions and of Interest in Securities

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(ii) As of March 20, 2019, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Daryl Law Shih Shion - nil.

Signed



Pong Teng Siew
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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